

An Audit

State Fair Park

2007-2008 Joint Legislative Audit Committee Members

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Appendix

Map of Wisconsin State Fair Park

Response

From the Executive Director of State Fair Park



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Janice Mueller
State Auditor

June 6, 2007

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

As required by s. 13.94(1)(dm), Wis. Stats., we have completed our annual financial audit of State Fair Park. We have issued an unqualified opinion on State Fair Park's fiscal year (FY) 2005-06 financial statements. In addition, we have continued to monitor State Fair Park's financial condition and its efforts to improve its financial performance.

In FY 2005-06, State Fair Park's expenditures exceeded revenues by \$1.7 million, increasing the fairgrounds' accumulated cash deficit to \$11.5 million. As part of efforts to improve State Fair Park's financial condition, agency officials have restructured the fairgrounds' financial relationships with two other facilities that operate on the fairgrounds: the Milwaukee Mile and the Pettit National Ice Center.

In December 2005, State Fair Park entered into an agreement with a private promoter to operate the Milwaukee Mile racetrack. The promoter acquired all promotional rights to the racetrack in exchange for an annual license fee. This license fee will provide State Fair Park with between \$1.7 million and \$1.8 million per year over the 18-year term of the agreement.

In January 2007, the Pettit Center was sold to its managing not-for-profit corporation for nearly \$5.6 million. Proceeds from the sale will be used to fund remaining debt service payments, which at the time of the sale were \$5.7 million. As a condition of the sale, State Fair Park waived \$1.0 million in past-due rent, which had been outstanding since June 30, 2004.

We appreciate the courtesy and cooperation extended to us by the staff of State Fair Park. A response from State Fair Park's executive director follows the appendix.

Respectfully submitted,

Janice Mueller
State Auditor

JM/CS/ss

Report Highlights ■

As of June 30, 2006, State Fair Park's accumulated cash deficit was \$11.5 million.

The sale of the Pettit Center was finalized on January 5, 2007.

State Fair Park's agreement with the racetrack promoter provides for a land exchange.

The Wisconsin Exposition Center believes that refinancing debt will help its financial condition.

Careful monitoring of State Fair Park's financial condition continues to be needed.

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to the annual Wisconsin State Fair. The State Fair Park Board, which is attached to the Department of Tourism for administrative purposes, is responsible for its management. We are required by statutes to perform an annual financial audit of State Fair Park and have issued an unqualified opinion on its financial statements for fiscal year (FY) 2005-06. They are included in our report.

We have also continued to monitor State Fair Park's financial condition and efforts to improve its financial performance. As part of those efforts, agency officials have restructured financial relationships with two entities operating facilities that have affected the financial condition of State Fair Park:

- the Pettit National Ice Center, a United States Olympic training facility that was built in 1992 and was recently sold to the not-for-profit corporation that has been responsible for its operation; and
- the Milwaukee Mile racetrack and grandstand, which had been managed by State Fair Park from May 2003 through December 2005, when operations were again licensed to a private promoter.

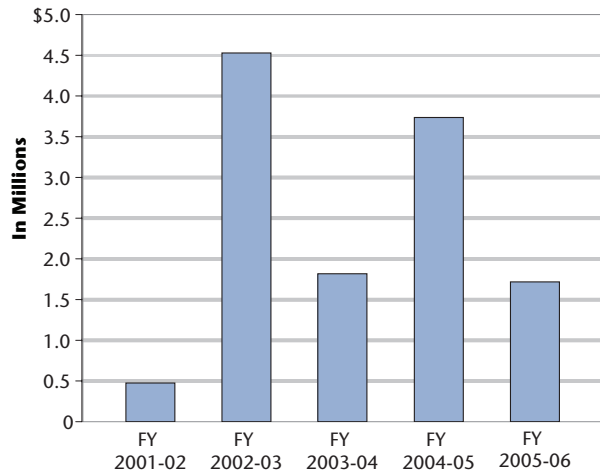
A third facility on the fairgrounds, the Wisconsin Exposition Center, is owned and operated by a not-for-profit organization. The Exposition Center is used exclusively for the Wisconsin State Fair each August but is available for other events throughout the year.

Fiscal Condition

State Fair Park’s annual expenditures—including operating, capital, and debt service costs—have exceeded total revenues since FY 1999-2000. A cash shortfall of \$1.7 million was realized in FY 2005-06, as shown in Figure 1.

Figure 1

State Fair Park Annual Cash Shortfall¹
FY 2001-02 through FY 2005-06



¹ Includes statutorily required lapses.

The cash shortfall is smaller in FY 2005-06 than in the prior year, when expenditures exceeded revenues by \$3.6 million. However, State Fair Park’s accumulated cash deficit has increased to \$11.5 million. Such a deficit reduces funding available for other state programs and limits the State’s ability to generate income from investment earnings.

Both staff and the Board believe that State Fair Park's long-term financial condition will improve with the sale of the Pettit Center and the privatization of Milwaukee Mile management. Further, several cost-saving initiatives have been implemented, and additional sponsorships have been sought to increase revenues. For the first time in recent years, State Fair Park is projecting a cash surplus of \$537,000 in FY 2006-07.

Pettit Center

The Pettit Center facility was sold to the Pettit National Ice Center, Inc., on January 5, 2007. The sale was approved by the State Building Commission and the Legislature's Joint Committee on Finance.

Based on two appraisals, and with input from the State's Capital Finance Director, the final sale price was set at \$5.6 million. Proceeds from the sale, plus interest earnings, will be used to pay the remaining debt service on the facility. As part of the sale agreement:

- State Fair Park waived past-due rent of \$1.0 million, which had been outstanding since June 30, 2004;
- the facility must continue to be used as an Olympic training facility;
- the facility cannot be leased without approval by the State Fair Park Board; and
- the State retains the first right of purchase if the facility is sold by the Pettit National Ice Center, Inc.

State Fair Park has requested \$5.3 million in program revenue-supported bonding authority in the event it would need to repurchase the Pettit Center. This request was included in recommendations by the Building Commission for the 2007-09 biennium and is currently pending in the Legislature.

The Milwaukee Mile

In December 2005, State Fair Park entered into a license agreement with Milwaukee Mile Holdings, LLC, a racing promoter, to manage the fairgrounds' racing activities. The license agreement is for a term of 18 years, with a renewal option for 10 additional years.

State Fair Park received \$246,000 in license fees in July 2006. Future license fees will exceed \$1.7 million in each year, as shown in Table 1.

Table 1

Annual Milwaukee Mile License Fees

Year	Annual Fee
2007	\$1,822,000
2008-2015	1,842,000
2016-2023	1,717,000

One provision in the 2005 license agreement is a four-year land exchange option under which Milwaukee Mile Holdings can acquire 9.35 acres of State Fair Park property for development. To do so, the promoter was to have acquired and remediated a separate piece of property located on the fairgrounds but owned by AmeriGas, L.P.

Propane tanks located on the AmeriGas property have caused some safety concerns. Therefore, in April 2007, Milwaukee Mile Holdings assigned its rights to acquire that property to the State Fair Park Board. At its May 2007 meeting, the Building Commission approved \$1.7 million in general purpose revenue (GPR)-supported borrowing for State Fair Park to purchase and remediate the land. In addition, \$300,000 in program revenue-supported borrowing was approved for utility and other improvements.

Milwaukee Mile Holdings continues to hold the right to purchase the 9.35 acres of State Fair Park land for development. If it exercises the option, it will reimburse the State for \$1.7 million spent to acquire and remediate the AmeriGas property.

Exposition Center

In its most recently audited financial statements, the not-for-profit Wisconsin Exposition Center reported a loss of \$668,000. Continuing losses and cash flow problems have led the Exposition Center to seek a refinancing arrangement for the remaining \$40.8 million in bonds used to finance facility construction.

The proposed refinancing agreement is expected to provide for a lower interest rate, which is anticipated to reduce annual debt service payments by \$60,000, and it does not require the Exposition Center to maintain a letter of credit. For calendar year 2005, the Exposition Center's cost to renew its letter of credit was \$27,126.

Exposition Center staff believe the refinancing will help its financial condition. To date, the refinancing agreement has not been finalized.

Future Considerations

In addition to their existing efforts to improve State Fair Park's financial condition for the long term, the State Fair Park Board and staff are considering other options to increase revenues and begin reducing the accumulated cash deficit. These include the potential development of 15.28 acres of the fairgrounds bordering I-94. Profits from this development would be used to reduce the current cash deficit.

Increasing debt service payments for the program revenue-supported bonds that financed various construction projects have contributed to State Fair Park's financial losses. For example, since FY 2001-02, annual debt service payments funded by program revenues have increased 56.5 percent. They totaled \$3.4 million in FY 2005-06.

Additional construction projects that would increase program revenue-funded debt service costs will need to be closely scrutinized. We believe State Fair Park should continue to carefully monitor its financial condition, especially related to capital projects.

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Introduction ■

State Fair Park has been home to the Wisconsin State Fair since 1892 and has operated as a separate state agency—the State Fair Park Board—since 1990. Under s. 15.445(4)(a), Wis. Stats., the State Fair Park Board’s members include:

- the Secretary of the Department of Tourism;
- the Secretary of the Department of Agriculture, Trade and Consumer Protection;
- five representatives of business, including three with general business experience, one with agricultural experience, and one with technology experience;
- one resident of the City of West Allis;
- one Wisconsin resident from anywhere in the state; and
- four legislators: two from the Assembly and two from the Senate.

Except for the legislators and department secretaries, State Fair Park Board members are appointed by the Governor and confirmed by the Senate for staggered five-year terms.

While the Board is attached to the Department of Tourism for administrative purposes, an executive director is responsible for State Fair Park's day-to-day operations. The current executive director was appointed by the State Fair Park Board through the State's unclassified employment system in December 2004.

State Fair Park's authorized staffing level was 30.2 full-time equivalent employees in FY 2005-06. Staffing was reduced by 1.8 positions for FY 2006-07 because of the consolidation of human resources and payroll functions within the Department of Administration. State Fair Park also employs approximately 1,500 limited-term employees. Most work exclusively during the 11-day Wisconsin State Fair.

State Fair Park's operations are funded primarily by revenue from the annual state fair.

Attendance fees and other revenues from the Wisconsin State Fair, which is held each August, are State Fair Park's primary source of funding. In addition, State Fair Park's financial operations are affected by three other facilities that operate on the fairgrounds:

- the Pettit National Ice Center, which until recently was owned by State Fair Park but leased and operated by a not-for-profit corporation whose board is independent of the State Fair Park Board, and was sold to the not-for-profit corporation in January 2007;
- the Wisconsin Exposition Center, which is owned and governed by the State Fair Park Exposition Center, Inc., a not-for-profit corporation created by the State Fair Park Board, and is governed by a board that includes the chair and one additional member of the State Fair Park Board; and
- the Milwaukee Mile racetrack and grandstand seating area, which encompass more than one-quarter of the fairgrounds' space. The Milwaukee Mile was managed by a private racing contractor until May 2003, at which time State Fair Park began to manage the facility directly. In December 2005, State Fair Park entered into a license agreement with a private racing promoter to operate the Milwaukee Mile. Operational control was transferred on January 1, 2006.

The 2005-07 Biennial Budget Act established State Fair Park's FY 2005-06 operating budget at \$21.3 million. This amount included \$4.6 million to operate and maintain the Milwaukee Mile. For FY 2006-07, the second year of the biennium, State Fair Park's appropriation was reduced to \$16.9 million because operations of the Milwaukee Mile were licensed to the outside promoter.

We have provided an unqualified audit opinion on State Fair Park's FY 2005-06 financial statements.

Under the provisions of 1999 Wisconsin Act 197, the Legislative Audit Bureau must perform an annual financial audit of State Fair Park. We have issued an unqualified opinion on the FY 2005-06 financial statements, which are included in this report. In addition, we have continued to monitor State Fair Park's financial position and its efforts to improve its financial performance.

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State Fair Park Finances ■

In previous audits, we reported on the size of State Fair Park's annual operating deficits. In FY 2005-06, State Fair Park reported a \$1.7 million cash shortfall, as operating expenditures continued to exceed revenues. While the size of the shortfall was reduced from the prior year, State Fair Park's financial condition continues to be a concern.

Revenues and Expenditures

State Fair Park continued to report a cash shortfall in FY 2005-06.

Total annual expenditures—which include operating, capital, and debt service costs—have exceeded total revenues since FY 1999-2000. As shown in Table 2, State Fair Park expenditures have exceeded revenues by \$12.3 million since FY 2001-02. State Fair Park staff attribute these losses to poor financial performance of the Milwaukee Mile and difficulties in receiving rental payments for the Pettit Center.

Table 2

State Fair Park Revenues and Expenditures¹

Fiscal Year	Revenues	Expenditures ²	Revenues Less Expenditures
2001-02	\$15,271,172	\$(15,746,449)	\$ (475,277)
2002-03	15,918,264	(20,446,226)	(4,527,962)
2003-04	19,890,268	(21,706,900)	(1,816,632)
2004-05	20,994,949	(24,731,774)	(3,736,825)
2005-06	18,541,520	(20,258,268)	(1,716,748)

¹ Data are provided on the cash basis of accounting.

² Includes statutorily required lapses to the State's General Fund of \$2.4 million in FY 2002-03, \$179,700 in FY 2003-04, and \$186,000 in FY 2004-05. No statutorily required lapse occurred in FY 2005-06.

Although the Milwaukee Mile was operated by an outside promoter for one-half of FY 2005-06, racing operations continued to significantly contribute to State Fair Park's cash shortfall. Racing revenues were \$3.1 million less than operating expenditures of \$3.9 million and debt service payments of \$1.9 million associated with Milwaukee Mile construction projects. Further, the debt service costs State Fair Park pays on bonds that financed construction of the Pettit Center have consistently exceeded rents paid by the Pettit Center. In FY 2005-06, its payments were nearly \$311,200 less than the amount due for that period.

Revenues from other operations, such as the annual Wisconsin State Fair, partially offset FY 2005-06 shortfalls generated as a result of the Milwaukee Mile and the Pettit Center. As noted in prior reports, State Fair Park has both implemented initiatives to reduce expenditures and sought additional sponsorships to increase revenue. State Fair Park staff estimate cost savings of nearly \$500,000 in FY 2005-06 as a result of these initiatives and reported that revenues from sponsorship and naming rights revenues totaled \$2.5 million, an increase of \$764,600 from the prior fiscal year.

State Fair Park staff estimate a cash surplus of \$537,000 in FY 2006-07.

Final financial data are not yet available for FY 2006-07, but for the first time in recent years, State Fair Park staff anticipate that total operating revenues will exceed total operating expenditures. They estimate that as a result, State Fair Park will end FY 2006-07 with a cash surplus of \$537,000. If this surplus is realized in FY 2006-07, it will be used to reduce the cash deficit that has accumulated in State Fair Park's program revenue appropriation.

State Fair Park staff reported a cumulative cash deficit of \$11.5 million as of June 30, 2006

As of June 30, 2006, State Fair Park's program revenue appropriation had an accumulated cash deficit of \$11.5 million. A cash deficit in any program revenue appropriation reduces the cash balances of the State's General Fund and costs the General Fund an opportunity to invest and earn interest on amounts used to cover the shortfall. Given its size, the deficit in State Fair Park's program revenue appropriation will likely take many years to eliminate.

Improving State Fair Park's financial condition has been a priority for agency officials. To do so, they have worked to restructure the financial relationships between State Fair Park and outside entities that operate on the fairgrounds.

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Relationships with Outside Parties ■

State Fair Park's primary source of funding is the annual Wisconsin State Fair, but in recent years its financial operations have been affected by three facilities operating on the fairgrounds: the Pettit National Ice Center, the Wisconsin Exposition Center, and the Milwaukee Mile racetrack.

Pettit National Ice Center

The Pettit National Ice Center is an official United States Olympic training facility and one of 12 indoor oval speed-skating rinks in the world. Until recently, it was owned by State Fair Park but operated and maintained by Pettit National Ice Center, Inc., a not-for-profit corporation.

The facility was built in 1992 at a cost of \$13.3 million, financed with \$4.0 million in private contributions and \$9.3 million in program revenue-supported state bonds. It was expected that funds to retire the debt would be provided through monthly rent payments under a lease agreement that gave the Pettit Center responsibility for its own operating costs and for the debt service costs that State Fair Park had incurred on its behalf. However, because of continued financial losses, the Pettit Center was unable to make rent payments on a regular basis, and State Fair Park was required to make some debt service payments on the facility without offsetting rent revenue. To limit the demands the Pettit Center has placed on the fairgrounds' financial resources, State Fair Park took steps to sell the facility.

In April 2006, legislation was introduced to sell both the facility and the land on which it was built to Pettit National Ice Center, Inc. The proposed legislation was not enacted, but State Fair Park officials continued to pursue a sale of the facility because they and Pettit Center officials believed the sale to be in the best interest of both parties. State Fair Park was interested in eliminating costs it incurred on the Pettit Center's behalf and transferring responsibility for future major capital improvements, such as heating and air conditioning equipment, ice-making equipment, and plumbing and electrical fixtures to Pettit National Ice Center, Inc. Pettit Center officials believed that potential contributors had been hesitant to donate to a building owned by the State and that donations and sponsorships could be acquired more easily if the facility were owned by the managing not-for-profit corporation.

State Fair Park sold the Pettit Center in January 2007 for \$5.6 million.

On January 5, 2007, State Fair Park completed the sale of the Pettit Center to Pettit National Ice Center, Inc. The sale was approved by the State Building Commission in August 2006 and by the Joint Committee on Finance in December 2006. State Fair Park sold the facility for almost \$5.6 million. The final sales price was determined by the State's Capital Finance Director to ensure that the proceeds, plus expected interest earnings, would be sufficient to cover the remaining debt service on the facility. Two appraisals of the Pettit Center facility and related land resulted in an average value of \$4.9 million.

State Fair Park waived \$1.0 million in past-due rent from the Pettit Center.

As part of the sale agreement, State Fair Park agreed to waive past-due rent of \$1.0 million owed by the Pettit Center since June 30, 2004. The sales agreement also stipulates that:

- the facility must continue to be used as an ice skating rink and Olympic training facility;
- Pettit National Ice Center, Inc., may not lease the Pettit Center to outside parties without approval of the State Fair Park Board; and
- if Pettit National Ice Center, Inc., elects to discontinue operations as an ice center or to sell the facility, the State has the first option to purchase it for \$5.3 million.

According to State Fair Park staff, a portion of the \$5.6 million in sales proceeds was used to reimburse State Fair Park for Pettit Center-related debt service payments made from July 1, 2006 through the date of the sale. The remaining proceeds were deposited in the State's Bond Security and Redemption Fund, to be used to fund remaining debt service payments that were \$5.7 million at the

time of the sale. It is expected that the sales proceeds will earn interest at 5.3 percent. However, State Fair Park will remain liable if the sale proceeds and interest earnings are not sufficient to cover the outstanding debt service payments. As shown in Table 3, interest earnings will need to be nearly \$909,000 over 18 years in order to fully fund the remaining debt service payments.

Table 3

Estimate of Interest Earnings Needed to Pay Future Debt Service
 Pettit National Ice Center

	Amount
Sale Price	\$5,568,000
Less:	
Assessment to City of Milwaukee	937
Debt Service for the period 7/1/2006 to 1/5/2007	748,658
Proceeds Available for Future Debt Service	\$4,818,405
Outstanding Debt Service	5,727,284
Interest Earnings Needed	\$ 908,879

As noted, the terms of the sale give the State the first option to repurchase the Pettit Center should the not-for-profit corporation choose to sell it. State Fair Park’s 2007-09 capital budget request includes \$5.3 million in program revenue-supported bonding authority in the event the Pettit Center would need to be repurchased. The request indicates that in order to make the first right of purchase meaningful, State Fair Park would need to complete the purchase within a short period of time and that with the existence of the bonding authority, State Fair Park would need only to obtain Building Commission approval for the repurchase. The request was included in Building Commission recommendations for the 2007-09 biennium and is currently pending in the Legislature.

The Wisconsin Exposition Center

The Wisconsin Exposition Center is a 271,000 square foot exhibition hall. Its construction was funded with \$44.9 million in industrial revenue bonds issued by the City of West Allis. Under the current bond agreement, the State Fair Park Exposition Center, Inc., is required to secure the bonds with a letter of credit and to make annual interest

payments. Principal payments are not made; instead, the entire principal balance will be due when the bonds mature in 2028.

In previous audits, we noted concern by Exposition Center staff that resources may not be available to meet future financial obligations. To address this concern, they have worked with a commercial lender to refinance the bonds issued to construct the facility. Exposition Center staff believe the refinancing will reduce costs, alleviate cash flow concerns, and give the Exposition Center time to mature as a business and further develop its client base.

Exposition Center staff believe refinancing will alleviate short-term cash flow concerns.

Under the refinancing agreement, which has not yet been finalized, the Exposition Center expects to obtain a lower interest rate and to begin making principal payments in 2017. Exposition Center staff indicate that a lower interest rate will reduce annual debt service payments by \$60,000. In addition, the Exposition Center expects to no longer be required by the lender to maintain a letter of credit. The Exposition Center's cost to renew the letter of credit required under the current financing agreement was \$27,126 in calendar year 2005, the last year for which audited financial statements are available.

The financial statements of the Exposition Center, which are included in our report, are audited by another firm. In its 2005 financial statements, the Exposition Center reported a net loss of \$668,000 and an overall deficit of \$1.3 million. With a new financing agreement in place, staff project the Exposition Center will remain financially viable. However, exposition centers generally have needed financial support from state or local governments. Although cash flow concerns may be resolved for the short term, decisions regarding the level of state or local support, if any, may be needed in the long term.

The Milwaukee Mile

Management of the Milwaukee Mile racetrack has undergone significant changes during the past several years. In May 2003, when State Fair Park terminated its contract with a private promoter and decided to manage and promote the racetrack internally, officials believed that doing so would increase revenues and eliminate financial losses from racing activities. However, after incurring losses of \$3.6 million in 2004, State Fair Park began seeking an outside promoter for the Milwaukee Mile. State Fair Park continued to manage and promote the Milwaukee Mile internally for the 2005 racing season, experiencing a loss of \$2.9 million.

In December 2005, State Fair Park again licensed the Milwaukee Mile to a private promoter.

In December 2005, State Fair Park licensed operations of the racetrack to the newly formed Milwaukee Mile Holdings, LLC. Under the terms of the license agreement, which took effect on January 1, 2006, State Fair Park retains full ownership of the Milwaukee Mile, but Milwaukee Mile Holdings acquired all promotional rights of the premises, including the oval racetrack, track infield, infield facilities, retaining walls and barriers, Milwaukee Mile office building, and parking lot. The agreement is for a term of 18 years, with a renewal option of another 10 years at the end of the initial term.

Annual licenses fees from the promoter are projected to exceed \$1.7 million per year.

Milwaukee Mile Holdings is required to pay an annual license fee to State Fair Park for its use of the Milwaukee Mile facility. In July 2006, State Fair Park received its first license fee payment of \$246,000. As shown in Table 4, future annual license fees will exceed \$1.7 million per year. However, State Fair Park continues to incur various costs that are not recovered under the terms of the license agreement. In calendar year 2006, these costs totaled \$1.6 million and included a one-time fee reduction of \$1.5 million. In the future, they are not expected to exceed \$250,000 and will largely consist of unrecovered debt service payments for previously funded track improvements. State Fair Park officials believe these costs will be offset by the benefit of use of Milwaukee Mile facilities during the Wisconsin State Fair.

Table 4

**Annual License Fees
Milwaukee Mile**

Year	Annual Fee
2007	\$1,822,000
2008-2015	1,842,000
2016-2023	1,717,000

The Milwaukee Mile license agreement includes a land exchange option.

The agreement signed in December 2005 includes a provision for a land exchange that gives Milwaukee Mile Holdings a four-year option to acquire 9.35 acres of State Fair Park land located between the Milwaukee Mile and West Greenfield Avenue and shown in the appendix. The current fair market value of this land is nearly \$2.8 million. The agreement allows the option to be exercised if Milwaukee Mile Holdings purchases a 2.54 acre parcel of land that is surrounded by the fairgrounds but owned by AmeriGas, L.P. and

provides that property to State Fair Park. If the option is exercised, the State Fair Park land acquired by Milwaukee Mile Holdings could be developed into a hotel; a restaurant; and retail, office, or entertainment facilities. Under the agreement, Milwaukee Mile Holdings must ensure the AmeriGas land is put into usable form and that potential health concerns are resolved before the title is conveyed to State Fair Park. In addition, Milwaukee Mile Holdings is required to make additional improvements, such as enhancements to various fairgrounds gates, to ensure that State Fair Park receives property and improvements worth \$2.8 million, the value of the property to be received in exchange.

In April 2007, Milwaukee Mile Holdings entered into an agreement with State Fair Park and assigned its option to purchase the AmeriGas property to the State Fair Park Board. Because of potential safety concerns with propane tanks located on the property, State Fair Park obtained approval from the State Building Commission to purchase the property and make the necessary improvements to put the land into a usable form. At its meeting on May 23, 2007, the Building Commission approved \$1.7 million in GPR-supported borrowing to purchase and remediate the property. In addition, the Building Commission approved \$300,000 in borrowing supported by State Fair Park program revenues for utility and surface improvements to the land. The remediation project is expected to be completed no later than February 2009.

Although Milwaukee Mile Holdings assigned its option to purchase the AmeriGas property to State Fair Park, it continues to have the option to purchase the 9.35 acres of State Fair Park property. Under the terms of the assignment agreement between Milwaukee Mile Holdings and State Fair Park, if Milwaukee Mile Holdings exercises the land exchange option, it will reimburse the State for the \$1.7 million in GPR-supported borrowing used to purchase and remediate the AmeriGas property. The amount the State would be reimbursed does not include interest costs the State will incur in borrowing funds to purchase the AmeriGas property. State Fair Park believes that the State will be able to invest the cash received from Milwaukee Mile Holdings in order to offset these interest costs.

In addition to reimbursing the State for its costs to purchase and remediate the AmeriGas property, Milwaukee Mile Holdings will make \$1.1 million in improvements to State Fair Park property to ensure that State Fair Park receives property and improvements worth \$2.8 million, the value of the property to be received in exchange. It is uncertain if or when Milwaukee Mile Holdings will exercise this option.

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Future Considerations ■

Based on our prior audit recommendations, the Joint Legislative Audit Committee requested that State Fair Park develop comprehensive business plans related to racing activities, the Pettit Center, and the Exposition Center. The current strategic business, marketing, and programming plan, which was approved by the State Fair Park Board in January 2007, includes several initiatives aimed at improving financial viability, such as creating a committee to explore the feasibility of developing a separate source of revenue committed to reducing and eliminating State Fair Park's accumulated cash deficit.

A special committee is considering development options for 15.28 acres of State Fair Park property.

The committee, consisting of State Fair Park management, board members, and others, is currently considering the feasibility of a commercial development on 15.28 acres of land bordering I-94 that is shown in the appendix. The land would be leased with restrictions that the development meet the statutorily required purposes of State Fair Park, not detract from the annual Wisconsin State Fair, replace any parking that would be lost by construction, and not financially interfere with future programming and revenue generation of the property under its current use. Revenue generated from the development would be dedicated to reducing the cash deficit. State Fair Park staff indicate that as currently used, the land generates revenue of approximately \$1.6 million per year. The committee is expected to report to the State Fair Park Board in fall 2007.

From FY 2001-02 through FY 2005-06, a total of \$72.2 million was spent on capital improvements.

From FY 2001-02 through FY 2005-06, a total of \$72.2 million was spent on capital improvements to the fairgrounds such as the Wisconsin Exposition Center, the Milwaukee Mile grandstand, racetrack improvements, other racing-related facilities, various agricultural buildings, and infrastructure improvements. With the exception of the Exposition Center, these improvements were funded by bonds supported by both State Fair Park program revenues and GPR. Therefore, State Fair Park's annual debt service payments have increased. The portion funded by program revenues increased 54.5 percent, from nearly \$2.2 million in FY 2001-02 to \$3.4 million in FY 2005-06. From FY 2006-07 through FY 2024-25, debt service payments related to program revenue-supported debt outstanding as of June 30, 2006, are expected to total approximately \$50.5 million.

Future capital projects should be closely scrutinized.

Most of the debt service costs related to the Milwaukee Mile improvements are expected to be recovered through the license fees received from racetrack promoters, and the proceeds from the sale of the Pettit Center, plus interest earnings, are expected to provide for the debt service payments on that facility. However, if the Milwaukee Mile promoters are unable to make the license fee payments or if interest earnings on proceeds from the Pettit Center sale are lower than expected, State Fair Park will be required to use program revenues to fund the shortfalls. In addition, if State Fair Park repurchases the Pettit Center at some point in the future, additional program revenue-supported borrowing will be needed. Therefore, any additional construction projects that would increase the program revenue-funded debt service costs will need to be closely scrutinized.

■ ■ ■ ■

Audit Opinion ■

Independent Auditor's Report on the Financial Statements of Wisconsin State Fair Park

We have audited the accompanying financial statements of Wisconsin State Fair Park as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of Wisconsin State Fair Park's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of State Fair Park Exposition Center, Inc., which represents 100 percent of the financial activity of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for State Fair Park Exposition Center, Inc., is based solely on their report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of State Fair Park Exposition Center, Inc., were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

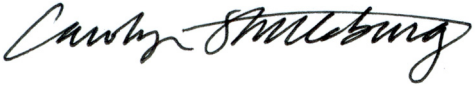
As discussed in Note 1, the financial statements referred to in the first paragraph present only Wisconsin State Fair Park and do not purport to, and do not, present fairly the financial position of the State of Wisconsin and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Wisconsin State Fair Park as of June 30, 2006, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Wisconsin State Fair Park. The supplementary information included as Management's Discussion and Analysis on pages 27 through 36 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 25, 2007, on our consideration of the Wisconsin State Fair Park's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

May 25, 2007

LEGISLATIVE AUDIT BUREAU

by
Carolyn Stittleburg
Audit Director

Management's Discussion and Analysis ■

Prepared by State Fair Park's Management

This section presents management's discussion and analysis of the financial performance of State Fair Park for the fiscal year ended June 30, 2006. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of State Fair Park's management.

Description of Wisconsin State Fair Park

Wisconsin State Fair Park is located in the cities of West Allis and Milwaukee. The Wisconsin State Fair, which is held on State Fair Park grounds, is one of the State's oldest and largest events and typically hosts in excess of 800,000 people during its 11-day duration. In addition to the annual fair, State Fair Park hosts cultural, sporting, agricultural, domestic, and commercial interest events.

State Fair Park is a separate state agency within the administrative structure of the State of Wisconsin. State Fair Park is governed by a 13-member board. The current charter of the Wisconsin State Fair Park Board reads as follows:

The State Fair Park Board is directed to manage State Fair Park and supervise its use for fairs, exhibits, or promotional events for agricultural, commercial, educational, and recreational purposes, to lease or license the property's use for other purposes when not needed for a public purpose, and to charge reasonable rents and fees for use of the premises. The Board is also directed to develop new facilities at State Fair Park and to provide a permanent location for an annual Wisconsin State Fair, major sports events, agricultural and industrial expositions, and other programs of civic interests.

State Fair Park's financial activity is reported as an enterprise fund in the State of Wisconsin's financial statements.

State Fair Park Exposition Center, Inc., which owns and manages the Wisconsin Exposition Center, is considered a component unit of the State of Wisconsin for financial reporting purposes. It is shown as a discretely presented component unit in the State of Wisconsin's Comprehensive Annual Financial Report and, because of its financial and operational affiliation with the State Fair Park Fund, it is also presented with the State Fair Park Fund's financial statements.

Financial Highlights

At the end of FY 2005-06, the assets of the State Fair Park Fund exceeded its liabilities by \$6.0 million (net assets). This total consists of \$21.3 million invested in capital assets, net of related debt and a deficit of unrestricted net assets of \$15.3 million.

The State Fair Park Fund's total net assets decreased by \$4.8 million during FY 2005-06.

Major Changes from FY 2004-05

A license agreement between State Fair Park and Milwaukee Mile Holdings, LLC, was entered into on December 19, 2005. Under the terms of the agreement, Milwaukee Mile Holdings will operate and promote the Milwaukee Mile, including the grandstand, racetrack, infield, media center, road course, Milwaukee Mile office building, and parking lot. Milwaukee Mile Holdings obtains use of the facilities for a maximum 134 days of each calendar year. State Fair Park retains use for the remaining 231 days. The term of the agreement is 18 years. License fees paid by Milwaukee Mile Holdings to State Fair Park are as follows:

- \$246,000 on June 19, 2006;
- \$1,822,230 on June 19, 2007;
- \$1,842,290 per year from June 2008 to 2015; and
- \$1,717,290 per year June 2016 to June 2023.

A letter of credit guarantees payment of two years of license fees to State Fair Park. It is anticipated that each year the letter of credit will be renewed. Annual license fees received by State Fair Park will be reduced by the annual cost of the letter of credit. The letter of credit fee was \$37,600 for FY 2005-06.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial statements of Wisconsin State Fair Park.

The Statement of Net Assets includes all assets and liabilities. Over time, increases and decreases in net assets are an indicator of State Fair Park's financial health.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year on an accrual basis. Activities are reported as either operating or nonoperating. The utilization of capital assets is reflected in the financial statements as depreciation expense, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows and helps measure the ability to meet financial obligations as they mature.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the State Fair Park Fund

An analysis of the State Fair Park Fund's financial position begins with a review of the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets. These two statements report the net assets and changes therein. As noted, changes in net assets may serve as a useful indication of the State Fair Park Fund's financial condition.

The State Fair Park Fund has \$21.3 million of net assets that are invested in capital assets (i.e., land, buildings, equipment, improvements, and construction in progress). Net capital assets total \$57.2 million, while the related outstanding debt is \$35.9 million. State Fair Park uses these assets to provide services to users of the fairgrounds; thus, they are not available for future spending. Although the State Fair Park Fund's investment in its capital assets is net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State Fair Park has been constructing new facilities over the past few years. While the level of construction in FY 2005-06 was less than that in prior years, State Fair Park added \$1.0 million to construction in progress during the year. Much of this construction has been financed by the issuance of new debt, which will be repaid by program revenues as well as from GPR. The State's contribution for capital projects was \$0.7 million for FY 2005-06. Table A presents summary financial information with comparisons to the prior year.

Table A

Condensed Financial Information
State Fair Park Fund

	FY 2005-06	FY 2004-05 ¹	Dollar Increase/(Decrease)
Current Assets	\$ 1,212,735	\$ 3,405,315	\$(2,192,580)
Capital Assets (Net of Depreciation)	57,198,122	59,756,585	(2,558,463)
Other Assets	172,376	1,204,720	(1,032,344)
Total Assets	<u>58,583,233</u>	<u>64,366,620</u>	<u>(5,783,387)</u>
Current Liabilities	18,426,341	17,471,748	954,593
Long-Term Liabilities	34,156,506	36,082,704	(1,926,198)
Total Liabilities	<u>52,582,847</u>	<u>53,554,452</u>	<u>(971,605)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	21,301,964	22,047,368	(745,404)
Unrestricted (Deficit)	(15,301,578)	(11,235,200)	(4,066,378)
Total Net Assets	<u>6,000,386</u>	<u>10,812,168</u>	<u>(4,811,782)</u>
Operating Revenues	17,296,338	21,676,487	(4,380,149)
Operating Expenses	21,094,466	24,220,007	(3,125,541)
Operating Loss	(3,798,128)	(2,543,520)	(1,254,608)
Nonoperating Revenues (Expenses)	(1,653,537)	(1,580,200)	(73,337)
Transfers In	662,132	303,628	358,504
Transfers Out	(22,249)	(463,951)	441,702
Changes in Net Assets	(4,811,782)	(4,284,043)	(527,739)
Net Assets—Beginning of the Year (as Restated)	10,812,168	15,096,211	(4,284,043)
Net Assets—End of the Year	<u>\$ 6,000,386</u>	<u>\$10,812,168</u>	<u>\$(4,811,782)</u>

¹ FY 2004-05 balances have been restated to reflect a prior-period adjustment.

Financial Commentary for the State Fair Park Fund

Operating Revenues

The source of operating revenues for the State Fair Park Fund is program generated. That is, various activities conducted on State Fair Park grounds and in State Fair Park facilities generate numerous types of revenues.

Table B includes a comparison of revenues by activity (rounded to the nearest \$1,000) for FY 2005-06 and FY 2004-05.

Table B

Revenues by Activity State Fair Park Fund

	FY 2005-06	Percentage of Total	FY 2004-05	Percentage of Total	Dollar Increase/(Decrease)
Annual State Fair	\$ 11,662,000	67.4%	\$ 12,519,000	57.7%	\$ (857,000)
Promoter Events	855,000	4.9	914,000	4.2	(59,000)
Racing	2,852,000	16.5	6,260,000	28.9	(3,408,000)
Other Park-Sponsored Events	484,000	2.8	519,000	2.4	(35,000)
General Operations ¹	1,443,000	8.4	1,464,000	6.8	(21,000)
Total	<u>\$17,296,000</u>		<u>\$21,676,000</u>		<u>\$(4,380,000)</u>

¹ Major components are the Pettit Center rent payments, RV park, and the Youth Center.

The decrease in annual state fair revenues resulted from a decrease in attendance (860,000 for the 2005 fair in FY 2005-06, versus 879,000 for the 2004 fair in FY 2004-05). Major decreases were in the areas of general and midway admissions and vendor payments for food and beverage.

The decrease in revenue from promoter events reflects State Fair Park's provision of fewer services to the Exposition Center for Exposition Center events.

Racing revenue decreases are the result of the licensing arrangement with Milwaukee Mile Holdings becoming effective on January 1, 2006.

The FY 2005-06 decrease in other State Fair Park-sponsored revenue related to World Beef Expo and Harvest Fair events. Attendance at both events decreased because of bad weather.

FY 2005-06 decreases in general operation revenues reflect a reduction in Youth Center event revenue because the facility was used to house Hurricane Katrina victims.

Operating Expenses

Table C includes a comparison of operating expenses (rounded to the nearest \$1,000) between FY 2005-06 and FY 2004-05.

Table C

Operating Expenses
State Fair Park Fund

	FY 2005-06	Percentage of Total	FY 2004-05 ¹	Percentage of Total	Dollar Increase/(Decrease)
Personal Services	\$ 4,788,000	22.7	\$ 5,314,000	21.9%	\$ (526,000)
Advertising	828,000	3.9	1,471,000	6.1	(643,000)
Entertainment	1,498,000	7.1	1,567,000	6.5	(69,000)
Other Expenses ²	10,436,000	49.5	12,251,000	50.6	(1,815,000)
Depreciation	3,544,000	16.8	3,617,000	14.9	(73,000)
Total	<u>\$21,094,000</u>		<u>\$24,220,000</u>		<u>\$(3,126,000)</u>

¹ FY 2004-05 balances have been restated due to a prior-period adjustment.

² Includes operating interest expense, adjustments to accounts receivable, and supplies and services expenses not related to advertising or entertainment costs.

Personal services expenses include both permanent and limited-term employee (LTE) salaries, as well as the associated fringe benefits. These costs decreased because of changes in permanent State Fair Park staff (mandated position reductions accomplished through retirement, position elimination, and use of contract employees) and LTE decreases primarily because of improved management and reductions of non-fair events.

The Milwaukee Mile contract accounted for \$434,000 of the reduction in advertising expense. In addition, advertising expenses relating to the fair event decreased slightly.

FY 2005-06 entertainment costs, which include fees paid to entertainers for performing at the annual State Fair, decreased because of a change in performer costs.

Other expenses decreased over FY 2004-05 primarily because of the licensing arrangement with Milwaukee Mile Holdings, which was effective January 1, 2006.

Capital Assets

Table D includes a comparison of capital assets between FY 2005-06 and FY 2004-05.

Table D

Capital Assets State Fair Park Fund

	FY 2005-06	FY 2004-05	Dollar Increase/(Decrease)
Capital Assets	\$90,800,237	\$89,814,764	\$ 985,473
Accumulated Depreciation	(33,602,115)	(30,058,179)	(3,543,936)
Net Capital Assets	<u>\$57,198,122</u>	<u>\$59,756,585</u>	<u>\$(2,558,463)</u>
Depreciation Expense	\$3,543,936	\$3,616,375	\$(72,439)

The FY 2005-06 increase in capital assets is primarily the result of construction relating to racetrack improvements and other infrastructure projects.

Debt—Program Revenue Funded

Table E includes a comparison between FY 2005-06 and FY 2004-05 of debt funded with program revenue.

Table E

Program Revenue—Funded Debt for State Fair Park State Fair Park Fund

	FY 2005-06	FY 2004-05	Dollar Increase/(Decrease)
Commercial Paper	\$ 922,894	\$ 1,157,656	\$ (234,762)
General Obligation Bonds	34,618,534	36,140,755	(1,522,221)
Total Debt	<u>\$35,541,428</u>	<u>\$37,298,411</u>	<u>\$(1,756,983)</u>

The change in commercial paper debt reflects payments on the existing debt. The change in general obligation bonds reflects the issuance of bonds for new projects and principal payments on existing debt.

Table F provides the future debt service requirements as of June 30, 2006, to be paid from State Fair Park's program revenue.

Table F

**Program Revenue–Funded Debt Service Requirements
State Fair Park Fund**

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2007	\$ 1,889,994	\$ 1,683,889	\$ 3,573,883
2008	1,999,824	1,594,035	3,593,859
2009	2,091,840	1,504,430	3,596,270
2010	2,180,893	1,410,643	3,591,536
2011	2,279,669	1,308,529	3,588,198
2012-2025	25,099,208	7,431,716	32,530,924
Total	<u>\$35,541,428</u>	<u>\$14,933,242</u>	<u>\$50,474,670</u>

Debt—General Fund

Table G includes a comparison between FY 2005-06 and FY 2004-05 of debt funded by the State's General Fund.

Table G

General Purpose Revenue–Funded Debt for State Fair Park

	FY 2005-06	FY 2004-05	Dollar Increase/(Decrease)
Commercial Paper	\$ 774,987	\$ 2,229,573	\$(1,454,586)
Bonds	23,894,905	23,031,039	863,866
Total	<u>\$24,669,892</u>	<u>\$25,260,612</u>	<u>\$ (590,720)</u>

The change in commercial paper debt reflects payments on the existing debt. Some of the payments on the commercial paper debt were funded with the issuance of new general obligation bonds. The change in general obligation bonds reflects the issuance of bonds, and principal payments on existing debt.

Table H provides the future debt service requirements as of June 30, 2006, to be paid from the State's General Fund.

Table H

General Purpose Revenue-Funded Debt Service Requirements Related to State Fair Park

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2007	\$ 1,140,244	\$ 1,234,221	\$ 2,374,465
2008	1,193,144	1,176,527	2,369,671
2009	1,249,633	1,118,721	2,368,354
2010	1,229,657	1,059,649	2,289,306
2011	1,315,663	997,364	2,313,027
2012-2026	18,541,551	5,500,046	24,041,597
Total	<u>\$24,669,892</u>	<u>\$11,086,528</u>	<u>\$35,756,420</u>

Other Known Facts

Program revenue lapses to the State's General Fund and other assessments have also affected the State Fair Park Fund. During the 2001-03 biennium, the State Fair Park Fund was required to lapse nearly \$2.4 million. An additional \$365,700 was required to be lapsed during the 2003-05 biennium. In FY 2005-06, the State Fair Park Fund was assessed \$97,132 related to the State's Accountability, Consolidation, and Efficiency (ACE) Initiative program.

On January 5, 2007, State Fair Park sold the Pettit National Ice Center, an enclosed year-round skating facility, to Pettit National Ice Center, Inc., the private, not-for-profit corporation that had been operating the facility. Terms of the sale are discussed in Note 13 to the financial statements.

Component Unit

The State Fair Park Exposition Center, Inc., is organized as a separate not-for-profit organization and reports on a calendar year. Following the guidance of the Governmental Accounting Standards Board (GASB), the Exposition Center is

reported as a discretely presented component unit of the State of Wisconsin and, because of its close relationship with the State Fair Park Fund, is included in these financial statements as well. The purpose of the Exposition Center is to finance, build, manage, and maintain an exposition center on the Wisconsin State Fair Park grounds. Upon repayment of the debt issued to finance construction of the Wisconsin Exposition Center, the title to it will transfer to State Fair Park and the not-for-profit organization will be dissolved.

The component unit is reported for the year ended December 31, 2005. Financial highlights include:

- 1) Cash and cash equivalents decreased \$0.2 million from 2004 to \$4.4 million.
- 2) Total operating revenue increased \$0.8 million from 2004 to \$4.5 million, while operating expenses decreased \$85,649 for 2005.
- 3) Interest expense decreased \$143,002 from 2004 to \$2.5 million for 2005.
- 4) The Exposition Center's income from operations was \$1.8 million in 2005, compared to \$0.9 million for 2004.
- 5) The Exposition Center's unrestricted net assets decreased by \$0.7 million from 2004, to (\$1.3) million for 2005.

Contacting State Fair Park and Exposition Center Management

This financial report is designed to provide a general overview of the financial performance of State Fair Park for FY 2005-06, and of the State Fair Park Exposition Center, Inc., for calendar year 2005. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

State Fair Park

Craig Barkelar, Deputy Director and Chief Financial Officer
640 S. 84th Street
West Allis, Wisconsin 53214

State Fair Park Exposition Center, Inc.

Jon C. Gaines, Vice-President of Administration and Finance
8200 West Greenfield Avenue
West Allis, Wisconsin 53214



Financial Statements ■

Statement of Net Assets

	State Fair Park Fund (As of June 30, 2006)	Component Unit— State Fair Park Exposition Center, Inc. (As of December 31, 2005)	Total (Memorandum Only)
ASSETS			
Current Assets:			
Cash and cash equivalents (Notes 2C and 6)	\$ 60,500	\$ 4,399,762	\$ 4,460,262
Marketable Securities	0	489,994	489,994
Receivables (net of estimated uncollectible accounts) (Note 10)	824,216	231,841	1,056,057
Due from other funds (Note 2G)	1,178	0	1,178
Inventories	125,936	0	125,936
Prepaid items	200,905	50,585	251,490
Total Current Assets	1,212,735	5,172,182	6,384,917
Noncurrent Assets:			
Deferred bond issuance costs	172,376	418,877	591,253
Capital assets (net of accumulated depreciation) (Notes 2E and 3)	57,198,122	34,976,951	92,175,073
Total Noncurrent Assets	57,370,498	35,395,828	92,766,326
TOTAL ASSETS	\$ 58,583,233	\$ 40,568,010	\$ 99,151,243
LIABILITIES			
Current Liabilities:			
Accounts payable (Note 10)	\$ 1,329,776	\$ 191,724	\$ 1,521,500
Due to other funds (Notes 2G and 10)	1,094,584	0	1,094,584
Interfund payables (Note 10)	10,076,601	0	10,076,601
Tax and other deposits	110,933	0	110,933
Deferred revenue (Note 2D)	3,491,980	0	3,491,980
Other accrued expenses	0	131,927	131,927
Unearned license fees	0	555,337	555,337
Interest payable	274,656	209,915	484,571
Capital leases (Note 4)	90,464	0	90,464
Compensated absences (Notes 2F and 9)	67,353	0	67,353
Notes payable (Note 5)	167,121	0	167,121
General obligation bonds payable (Note 5)	1,722,873	0	1,722,873
Total Current Liabilities	18,426,341	1,088,903	19,515,244
Noncurrent Liabilities:			
Capital leases (Note 4)	436,642	0	436,642
Compensated absences (Notes 2F and 9)	68,430	0	68,430
Notes payable (Note 5)	755,773	0	755,773
General obligation bonds payable (Note 5)	32,895,661	0	32,895,661
Industrial revenue bonds payable (Note 14)	0	40,795,000	40,795,000
Total Noncurrent Liabilities	34,156,506	40,795,000	74,951,506
TOTAL LIABILITIES	52,582,847	41,883,903	94,466,750
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	21,301,964	0	21,301,964
Restricted for Debt and Capital Assets	0	0	0
Unrestricted	(15,301,578)	(1,315,893)	(16,617,471)
TOTAL NET ASSETS	\$ 6,000,386	\$ (1,315,893)	\$ 4,684,493

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets

	State Fair Park Fund (For the Year Ended June 30, 2006)	Component Unit— State Fair Park Exposition Center, Inc. (For the Year Ended December 31, 2005)	Total (Memorandum Only)
OPERATING REVENUES			
Charges for Sales and Services	\$ 17,289,135	\$ 4,177,848	\$ 21,466,983
Other Income	7,203	352,805	360,008
Total Operating Revenues	17,296,338	4,530,653	21,826,991
OPERATING EXPENSES			
Salaries and Fringe Benefits	4,788,327	804,819	5,593,146
Supplies and Services	11,817,064	851,235	12,668,299
Depreciation (Notes 2E and 3)	3,543,936	1,032,689	4,576,625
Bad Debt Expense (Note 11)	945,139	0	945,139
Other	0	6,670	6,670
Total Operating Expenses	21,094,466	2,695,413	23,789,879
OPERATING INCOME (LOSS)	(3,798,128)	1,835,240	(1,962,888)
NONOPERATING REVENUES (EXPENSES)			
Investment and Interest Income	5,594	(10,006)	(4,412)
Gift and Donations	25,800	0	25,800
Gain on Sale of Fixed Assets	0	1,297	1,297
Interest Expense	(1,684,931)	(2,495,219)	(4,180,150)
Total Nonoperating Revenues (Expenses)	(1,653,537)	(2,503,928)	(4,157,465)
Loss Before Transfers	(5,451,665)	(668,688)	(6,120,353)
Transfers In (Notes 2H and 12)	662,132	0	662,132
Transfers Out (Notes 2H and 12)	(22,249)	0	(22,249)
CHANGE IN NET ASSETS	(4,811,782)	(668,688)	(5,480,470)
NET ASSETS			
Total Net Assets, Beginning of Year as Previously Stated	10,816,276	(647,205)	10,169,071
Prior-Period Adjustment (Note 7)	(4,108)	0	(4,108)
Total Net Assets—Beginning of the Year Adjusted	10,812,168	(647,205)	10,164,963
Total Net Assets—End of the Year	\$ 6,000,386	\$ (1,315,893)	\$ 4,684,493

The accompanying notes are an integral part of this statement.

**Statement of Cash Flows—State Fair Park Fund
for the Year Ended June 30, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 18,319,559
Cash Payments to Suppliers for Goods and Services	(11,075,047)
Cash Payments to Employees for Services	(4,801,051)
Other Operating Revenues	7,203
Transfers Out	127,316
Net Cash Provided by Operating Activities	<u>2,577,980</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Interfund Loans Received	906,452
Transfers Out	(149,565)
Proceeds from Gifts and Donations	25,800
Net Cash Provided by Noncapital Financing Activities	<u>782,687</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Issuance of Debt	110,296
Transfers In	662,132
Repayment of Debt	(1,867,279)
Interest Paid	(1,720,112)
Debt Issuance Costs	20,846
Capital Lease Payments	(100,475)
Purchase of Fixed Assets	(471,669)
Net Cash Used by Capital and Related Financing Activities	<u>(3,366,261)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment and Interest Receipts	<u>5,594</u>
Net Cash Provided by Investing Activities	<u>5,594</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>0</u>
Cash and Cash Equivalents—Beginning of the Year	<u>60,500</u>
Cash and Cash Equivalents—End of the Year	<u>\$ 60,500</u>

The accompanying notes are an integral part of this statement.

**RECONCILIATION OF NET OPERATING LOSS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Net Operating Loss	\$	(3,798,128)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation expense		3,543,936
Bad debt expense		945,139
Transfers out		127,316
Changes in assets and liabilities:		
Decrease (Increase) in receivables		901,646
Decrease (Increase) in due from other funds		4,499
Decrease (Increase) in inventories		(86,500)
Decrease (Increase) in prepaid items		1,439,294
Increase (Decrease) in accounts payable		(189,071)
Increase (Decrease) in due to other funds		(410,846)
Increase (Decrease) in deposits		11,278
Increase (Decrease) in deferred revenues		113,001
Increase (Decrease) in compensated absences		(23,584)
Total Adjustments		<u>6,376,108</u>
Net Cash Provided by Operating Activities	\$	<u><u>2,577,980</u></u>
Noncash Investing, Capital and Financing Activities		
Capital Leases:		
Fair Market Value	\$	23,553

The accompanying notes are an integral part of this statement.

Statement of Cash Flows: Component Unit—Exposition Center for the Year Ended December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (668,688)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:	
Depreciation expense	1,032,689
Amortization expense	53,247
Gain on Sale of Fixed Assets	(1,297)
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(24,982)
Decrease (Increase) in prepaid items	3,149
Increase (Decrease) in accounts payable	30,540
Increase (Decrease) in accrued bond interest	(1,078)
Increase (Decrease) in other accrued expenses	(81,862)
Increase (Decrease) in unearned license fees	66,776
Total Adjustments	<u>1,077,182</u>
Net Cash Provided by Operating Activities	<u>408,494</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of Notes Payable	(45,000)
Repayment of Letter of Credit Fees	<u>(27,126)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(72,126)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Marketable Securities	(489,994)
Proceeds from Sale of Fixed Assets	10,000
Purchase of Fixed Assets	<u>(50,674)</u>
Net Cash Used by Investing Activities	<u>(530,668)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Beginning of the Year—Cash and Cash Equivalents	<u>4,594,062</u>
End of the Year—Cash and Cash Equivalents	<u>\$ 4,399,762</u>

Supplemental Disclosure:

Cash paid during the year for:	
Interest	\$ 2,550,260

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. DESCRIPTION OF THE WISCONSIN STATE FAIR PARK

The Wisconsin State Fair Park is located in the cities of West Allis and Milwaukee. In addition to holding the annual Wisconsin State Fair, State Fair Park hosts cultural, sporting, agricultural, domestic, and commercial interest events.

State Fair Park is a separate state agency within the administrative structure of the State of Wisconsin. State Fair Park's financial activity is accounted for within the State Fair Park Fund, which is part of the State of Wisconsin financial reporting entity.

The Wisconsin Exposition Center, which is located on State Fair Park grounds, is operated by the State Fair Park Exposition Center, Inc., a nonstock, not-for-profit corporation. In accordance with Governmental Accounting Standards Board (GASB) Statement 14, the Exposition Center is considered a discrete component unit of the State of Wisconsin. In addition, although the Exposition Center is legally separate from the State of Wisconsin and the State Fair Park Fund, its relationship with the State Fair Park Fund is such that exclusion may cause the State Fair Park Fund's financial statements to be misleading or incomplete. Therefore, financial statements for the Exposition Center are included. The Board of the Exposition Center includes the chairperson and one other member of the State Fair Park Board, and three members they appoint.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE STATE FAIR PARK FUND

A. Fund Accounting and Basis of Presentation

The financial statements of the State Fair Park Fund have been prepared in conformance with generally accepted accounting principles (GAAP) for proprietary funds as prescribed by GASB. The accompanying financial statements were prepared based upon the flow of economic resources measurement focus and full accrual basis of accounting, with revenues recognized when earned and expenses recognized when incurred.

The Statement of Revenues, Expenses, and Changes in Net Assets classifies the State Fair Park Fund's fiscal year activity as either operating or nonoperating. Because the State Fair Park Fund is an enterprise fund, which is a type of proprietary fund, it accounts for operations in a manner similar to private businesses in which operating revenues are derived from exchange transactions, such as sales. Operating expenses include salaries, supplies, and depreciation of capital assets.

Certain revenues and expenses that are not related to the State Fair Park Fund's primary purpose, such as the gain or loss on the disposal of capital assets and interest expense, are reported as nonoperating revenues and expenses.

The State Fair Park Fund applies all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

B. Revenue Recognition

The State Fair Park Fund derives the majority of its revenues from events such as the annual Wisconsin State Fair held at the fairgrounds. Revenue for the events is recognized at the time the events are held.

C. Cash and Cash Equivalents

Cash and cash equivalents reported on the State Fair Park Fund's Statement of Net Assets and the Statement of Cash Flows include:

- cash deposited with a commercial financial institution; and
- currency on hand at State Fair Park.

D. Deferred Revenue

For cash receipts collected in advance of events from vendors or the general public, revenue is not recognized until the event occurs. Therefore, deferred revenue is recorded based upon payments received before events occur.

E. Capital Assets

Capital assets purchased for \$5,000 or more are recorded at cost and are depreciated using the straight-line method according to the following schedule:

	<u>Estimated Life</u>
Buildings and Improvements	15 to 31.5 years
Machinery and Equipment	3 to 7 years

F. Employee Compensated Absences

The State Fair Park Fund’s compensated absence liability consists of accumulated unpaid leave, compensatory time, personal holiday hours, and Saturday/legal holiday hours earned and vested as of June 30, 2006. The liability and expense for compensated absences are based on current rates of pay.

G. Due to (from) Other State Funds

During the course of operations, transactions for goods provided or services rendered occur among individual state programs. The statement of net assets classifies these receivables and payables as “Due from Other Funds” or “Due to Other Funds.”

H. Transfers In (Out)

Transfers In (Out) represent transfers of cash between state agencies. “Transfers In” consist of general purpose revenue provided to the State Fair Park Fund to fund improvement, repair, or construction of State Fair Park’s facilities and grounds. “Transfers Out” consist of transfers made to the Wisconsin Department of Administration to cover costs paid by other state funds and various lapses to the General Fund.

I. Net Assets

Net assets represent the difference between the State Fair Park Fund’s assets and liabilities and are reported in two categories: invested in capital assets, net of related debt; and unrestricted. Unrestricted net assets represent amounts that, if positive, could be used at State Fair Park’s discretion.

3. CAPITAL ASSETS

The State Fair Park Fund's capital asset transactions for the year ended June 30, 2006, are summarized as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital Assets Not Being Depreciated:				
Land	\$ 998,504	\$ 0	\$ 0	\$ 998,504
Construction in Progress	<u>0</u>	<u>1,011,443</u>	<u>0</u>	<u>1,011,443</u>
Total Capital Assets Not Being Depreciated	998,504	1,011,443	0	2,009,947
Capital Assets Being Depreciated:				
Buildings and Improvements	86,670,294	50,732	(100,255)	86,620,771
Machinery and Equipment	<u>2,145,966</u>	<u>23,553</u>	<u>0</u>	<u>2,169,519</u>
Total Capital Assets Being Depreciated	88,816,260	74,285	(100,255)	88,790,290
Less Accumulated Depreciation for:				
Buildings and Improvements	(28,523,864)	(3,406,788)	0	(31,930,652)
Machinery and Equipment	<u>(1,534,315)</u>	<u>(137,148)</u>	<u>0</u>	<u>(1,671,463)</u>
Total Accumulated Depreciation	<u>(30,058,179)</u>	<u>(3,543,936)</u>	<u>0</u>	<u>(33,602,115)</u>
Total Capital Assets Being Depreciated, Net	<u>58,758,081</u>	<u>(3,469,651)</u>	<u>(100,255)</u>	<u>55,188,175</u>
Total Capital Assets, Net	<u>\$59,756,585</u>	<u>\$ (2,458,208)</u>	<u>\$ (100,255)</u>	<u>\$57,198,122</u>

See Note 14 for information about the Wisconsin Exposition Center's capital assets.

4. LEASE OBLIGATIONS

Equipment items, including a turnstile, trolley trailers, street signs, a telephone system, and signage to direct visitors to and around the fairgrounds have been leased through capital leases and are included in the State Fair Park Fund's capital assets. Leased equipment is depreciated over a period of between two and seven years. The accumulated depreciation on this leased equipment totaled \$489,109, resulting in a net book value of \$457,012. Total lease payments for the fiscal year ended June 30, 2006, were \$100,475. Future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2006, are as follows:

For the Year Ending:

June 30, 2007	\$115,703
June 30, 2008	115,703
June 30, 2009	115,703
June 30, 2010	108,339
June 30, 2011	100,975
June 30, 2012	<u>50,488</u>
Total Minimum Lease Payments	606,911
Less: Amount Representing Interest	<u>(79,805)</u>
Present Value of Minimum Lease Payments	<u>\$527,106</u>

During the year ended June 30, 2006, the following changes occurred in the State Fair Park Fund’s capital lease liability:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Capital Leases	<u>\$604,028</u>	<u>\$23,553</u>	<u>\$(100,475)</u>	<u>\$527,106</u>	<u>\$90,464</u>

5. DEBT OBLIGATIONS

State of Wisconsin general obligation bonds and commercial paper are issued to finance the construction, development, improvement, and major repair of facilities on the State Fair Park grounds and to refund existing debt. All general obligation bonds authorized and issued by the State are secured by the full faith, credit, and taxing power of the State of Wisconsin. Funding to cover debt service payments comes from program revenue received from State Fair Park operations, as well as from GPR of the State of Wisconsin.

Debt to Be Repaid from State Fair Park Fund Program Revenue

Program revenue-supported bonding is reported on the State Fair Park Fund’s statement of net assets. Changes in the State Fair Park Fund’s portion of long-term debt are as follows:

	<u>Balance June 30, 2005</u>	<u>New Debt Proceeds</u>	<u>Principal Payments and Refunds</u>	<u>Balance June 30, 2006</u>
Notes Payable—				
Commercial Paper	\$ 1,157,656	\$ 0	\$ (234,762)	\$ 922,894
Bonds	<u>36,140,755</u>	<u>110,296</u>	<u>(1,632,517)</u>	<u>34,618,534</u>
Total	<u>\$37,298,411</u>	<u>\$110,296</u>	<u>\$(1,867,279)</u>	<u>\$ 35,541,428</u>

The bond debt has fixed interest rates, while the commercial paper has a variable interest rate that changes daily. New debt proceeds from bonds

include amounts received from bonds issued to fund payments on outstanding commercial paper debt. Reductions in the long-term liability reflect principal payments on outstanding debt.

As of June 30, 2006, estimated future debt service requirements to be paid from State Fair Park Fund program revenue are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service
2007	\$ 1,889,994	\$ 1,683,889	\$ 3,573,883
2008	1,999,824	1,594,035	3,593,859
2009	2,091,840	1,504,430	3,596,270
2010	2,180,893	1,410,643	3,591,536
2011	2,279,669	1,308,529	3,588,198
2012-2016	11,248,578	4,847,093	16,095,671
2017-2021	10,490,790	2,327,453	12,818,243
2022-2026	<u>3,359,840</u>	<u>257,170</u>	<u>3,617,010</u>
Total	<u>\$35,541,428</u>	<u>\$14,933,242</u>	<u>\$50,474,670</u>

Debt to Be Repaid from State of Wisconsin General Purpose Revenue

Debt service payments to be made from the State of Wisconsin’s GPR are not a debt of the State Fair Park Fund. The debt liability and debt service payments are reported as governmental activities of the State of Wisconsin, while the related assets and repair expense are reported in the financial statements of the State Fair Park Fund. The changes in the State’s General Fund long-term debt to be paid on behalf of the State Fair Park Fund are as follows:

	Balance June 30, 2005	New Debt Proceeds	Principal Payments and Refunds	Balance June 30, 2006
Commercial Paper	\$ 2,229,573	\$ 154,785	\$(1,609,371)	\$ 774,987
Bonds	<u>23,031,039</u>	<u>1,601,777</u>	<u>(737,911)</u>	<u>23,894,905</u>
Total	<u>\$25,260,612</u>	<u>\$1,756,562</u>	<u>\$(2,347,282)</u>	<u>\$24,669,892</u>

The bond debt has fixed interest rates, while the commercial paper has a variable interest rate that changes daily. New debt proceeds from bonds include amounts received from bonds issued to fund payments on outstanding commercial paper debt and refund existing bond debt. Reductions in the long-term liability reflect principal payments on outstanding debt and refunds of existing debt.

As of June 30, 2006, estimated future debt service requirements to be paid from State of Wisconsin GPR are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 1,140,244	\$ 1,234,221	\$ 2,374,465
2008	1,193,144	1,176,527	2,369,671
2009	1,249,633	1,118,721	2,368,354
2010	1,229,657	1,059,649	2,289,306
2011	1,315,663	997,364	2,313,027
2012-2016	8,737,132	3,750,433	12,487,565
2017-2021	7,650,098	1,563,566	9,213,664
2022-2026	<u>2,154,321</u>	<u>186,047</u>	<u>2,340,368</u>
Total	<u>\$24,669,892</u>	<u>\$11,086,528</u>	<u>\$35,756,420</u>

See Note 14 for information about the Wisconsin Exposition Center’s debt obligations.

6. DEPOSITS

GASB Statement 40, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement 3*, requires certain disclosures related to custodial credit risk. Custodial credit risk is the risk that in the event of a failure of a depository financial institution, deposits may not be returned. The Federal Deposit Insurance Corporation insures deposits of up to \$100,000 at each depository institution. As of June 30, 2006, \$19,900 of the State Fair Park Fund’s cash balance was deposited in a commercial checking account. The remaining \$40,600 was on hand at State Fair Park for use during State Fair Park events.

See Note 14 for information about the Wisconsin Exposition Center’s cash and cash equivalent balances.

7. PRIOR-PERIOD ADJUSTMENT

State of Wisconsin capital project accounts related to the State Fair Park Fund were adjusted to correct an error made in a prior year, which resulted in certain State Fair Park transactions being reported in another fund. An adjustment was made to correct the misstatement in the following State Fair Park Fund accounts:

<u>Account</u>	<u>Balance June 30, 2005</u>	<u>Adjustment</u>	<u>Balance June 30, 2005 Restated</u>
Accounts Payable	\$ 1,424,267	\$ 4,108	\$ 1,428,375
Net Assets	10,816,276	(4,108)	10,812,168

8. EMPLOYEE RETIREMENT PLAN

Permanent, full-time employees of State Fair Park are participants in the Wisconsin Retirement System, a cost-sharing, multiple employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings, 2) years of creditable service, and 3) a formula factor. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit. The Wisconsin Retirement System is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information may be obtained by writing to:

Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, WI 53707-7931

The report is also available on the Department of Employee Trust Funds' Web site, <http://etf.wi.gov>.

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the retirement system. Prior service costs are amortized over 40 years, beginning January 2, 1990. However, in December 2003, the State issued bonds and subsequently liquidated its prior service liability balance as of January 2003. In addition, state agencies are required to make future contributions to fund bond payments.

The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. The State Fair Park Fund's contributions to the plan were \$226,558 for FY 2005-06. The relative position of the State Fair Park Fund in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

9. COMPENSATED ABSENCES

The State Fair Park Fund’s compensated absences activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Compensated Absences	<u>\$159,367</u>	<u>\$70,557</u>	<u>\$(94,141)</u>	<u>\$135,783</u>	<u>\$67,353</u>

10. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Accounts Receivable and Accounts Payable balances, which are combined on the State Fair Park Fund’s financial statements, are disaggregated as follows:

A. State Fair Park Fund Accounts Receivable

	<u>Fiscal Year 2005-06</u>
Accounts Receivable:	
Racing Activities	\$361,990
Rent Revenue	311,153
Miscellaneous	<u>151,073</u>
Total Accounts Receivable	<u>\$824,216</u>

B. State Fair Park Fund Accounts Payable, Due to Other Funds, and Interfund Payables

	<u>Fiscal Year 2005-06</u>
Accounts Payable:	
Vendors	\$1,259,610
Employees	<u>70,166</u>
Total Accounts Payable	<u>\$1,329,776</u>
Due to Other Funds:	
Due to other state programs	<u>\$1,094,584</u>
Total Due to Other Funds	<u>\$1,094,584</u>
Interfund Payables:	
Amounts due to other funds for short-term loans to cover the State Fair Park Fund’s cash overdraft	<u>\$10,076,601</u>
Total Interfund Payables	<u>\$10,076,601</u>

11. BAD DEBT EXPENSE

During FY 2005-06, State Fair Park leased the Pettit National Ice Center, an enclosed year-round ice center located on State Fair Park grounds, to the Pettit National Ice Center, Inc., a private not-for-profit corporation. Under the terms of the lease, Pettit National Ice Center, Inc., is responsible for making monthly rent payments to cover debt service costs incurred by the State Fair Park Fund on the bonds issued to fund construction of the facility. As of June 30, 2006, the Pettit National Ice Center, Inc., had not made \$1.3 million in rental payments, of which \$1.0 million was outstanding at June 30, 2004. Because of the sale of the Pettit Center, as discussed in Note 13, this portion of the balance will not be collected and is reported as a bad debt expense on the Statement of Revenues, Expenses, and Changes in Net Assets.

12. INTERFUND TRANSFERS

Interfund transfers that occurred during FY 2005-06 are as follows:

A. State Fair Park Fund Transfers In

For Capital Building Projects	<u>\$662,132</u>
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B. State Fair Park Fund Transfers Out

Transfers Out:

For Required Lapses to the General Fund for: Accountability, Consolidation, and Efficiency Initiative	\$97,132
Prior Service Cost Bond Contributions	<u>52,433</u>

	\$149,565
For Municipal Services	<u>(127,316)</u>
Total Transfers Out	<u>\$ 22,249</u>

13. SUBSEQUENT EVENT FOR THE STATE FAIR PARK FUND

On January 5, 2007, State Fair Park sold the Pettit National Ice Center to Pettit National Ice Center, Inc. Proceeds from the sale were deposited into the State's Bond Security and Redemption Fund to pay debt service on the bonds used to construct the facility. As a result, the State Fair Park Fund's capital assets, net of accumulated depreciation, will be reduced by \$6.1 million in FY 2006-07.

14. COMPONENT UNIT—WISCONSIN STATE FAIR PARK EXPOSITION CENTER, INC.**A. Summary of Significant Accounting Policies***Organization*

The purpose of the Wisconsin State Fair Park Exposition Center, Inc., is to finance, build, manage, and maintain an exposition center on the Wisconsin State Fair Park grounds in West Allis, Wisconsin. The Wisconsin Exposition Center was substantially complete and placed in service as of August 1, 2002. Upon repayment of the bond issued to finance its construction, the title to the structure will be transferred to State Fair Park, and the State Fair Park Exposition Center, Inc., will be dissolved. The Exposition Center reports on a fiscal year ended December 31.

The State Fair Park Exposition Center, Inc., is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation. Accordingly, no accrual for income taxes has been included in these financial statements.

Copies of the Exposition Center's separately issued financial report that includes financial statements and required supplementary information may be obtained by writing to:

State Fair Park Exposition Center, Inc.
8200 West Greenfield Avenue
West Allis, WI 53214

Basis of Accounting

The financial statements for the Exposition Center have been prepared on the accrual basis of accounting.

Basis of Presentation

The Exposition Center reports under the provisions of FASB Statement of Financial Accounting Standards No. 117, *Financial Statements for Not-for-Profit Organizations*.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Exposition Center considers all short-term investments with a maturity of three months or less to be a cash equivalent. Cash and cash equivalents were \$3.2 million as of December 31, 2005, and are held in trust accounts and restricted in accordance with the terms of the Exposition Center's industrial revenue bonds payable.

Accounts Receivable

The Exposition Center uses the allowance method for recording bad debts.

Capital Assets

Capital assets greater than \$500 are capitalized at cost and are depreciated using the straight-line method over their estimated useful lives of 39 years for buildings and 5 to 7 years for equipment and improvements.

Bond Issuance and Letter of Credit Costs

Bond issuance costs of \$537,185 are being amortized using the effective-interest method over the 28-year life of the related bonds. Amortization of bond issuance costs for the year ended December 31, 2005, was \$28,788 and is included in interest expense. Letter of credit costs of \$27,126 were incurred in 2005 and are being amortized over the life of the letter of credit, which is 12 months for 2005. Amortization of letter of credit costs was \$24,459 in 2005 and is included in interest expense.

Total Bond Issuance and Letter of Credit Costs	\$564,311
Accumulated Amortization	<u>(145,434)</u>
Unamortized Bond Issuance and Letter of Credit Costs at December 31, 2005	<u>\$418,877</u>

Government Grants

The Exposition Center received a Homeland Security Grant of \$56,900 in 2005, which was used to upgrade the security system. These funds are recognized as revenue in the accounting period in which the expenses are incurred. If it is subsequently determined that a surplus exists within a program, the funding sources have the right to request reimbursement of the surplus. Any refunds disbursed are shown as a charge to support in the year in which they occur. The entire grant was expended and, therefore, there will not be a refund.

Unearned License Fees

Unearned license fees consist of advance deposits received for Wisconsin Exposition Center events held in the following years.

Advertising and Marketing Costs

The Exposition Center expenses advertising and marketing costs as incurred. Advertising and marketing expenses, which are included in supplies and services expenses on the operating statement, totaled \$27,437 in 2005.

B. Concentration of Credit Risk for Cash and Cash Equivalents

The Exposition Center maintains cash balances at two banks. Accounts at the bank are insured by the Federal Deposit Insurance Corporation for up to \$100,000. The uninsured portion, without regard to outstanding checks and deposits in transit, was \$1.1 million as of December 31, 2005.

The Exposition Center maintains cash equivalent balances in trust accounts at another bank. The accounts are invested in uninsured investment-grade money market funds with a rating of AA. The uninsured amount, without regard to outstanding checks and deposits in transit, was \$3.2 million as of December 31, 2005.

C. Industrial Revenue Bonds Payable

On August 1, 2001, \$44.9 million worth of City of West Allis, Wisconsin, Variable Rate Demand Revenue Bonds, Series 2001 were issued to finance the construction of the Wisconsin Exposition Center. The bonds call for monthly interest-only payments until the date of maturity. The bonds have a final maturity of August 1, 2028, on which date the entire principal balance is due. However, the bonds require a mandatory redemption to the extent of unused bond proceeds. Repayment of the bonds is guaranteed by a letter of credit which expires on April 15, 2008. The Exposition Center was not notified of any event of default with respect to the industrial revenue bonds payable restrictive covenants as of December 31, 2005.

The balance outstanding on the industrial revenue bonds payable was \$40.8 million as of December 31, 2005. In January 2003, the Exposition Center redeemed \$4.1 million of bonds in accordance with the mandatory redemption requirements for unused bond proceeds.

A summary of future interest payments on bonds payable as of December 31, 2005 follows:

	<u>Interest Payment</u>
2006	\$ 2,531,453
2007	2,531,453
2008	2,531,453
2009	2,531,453
2010-2014	12,657,265
2015-2019	12,657,265
2020-2024	12,657,265
2025-2029	<u>9,071,040</u>
Total	<u>\$57,168,647</u>

A summary of interest expense for 2005 is as follows:

	<u>Interest Expense</u>
Interest Incurred	\$ 2,541,433
Letter of Credit and Remarketing Fees	28,709
Amortization of Bond issuance Costs	28,788
Interest Earned	<u>(103,711)</u>
Total	<u>\$2,495,219</u>

D. Notes Payable

The Exposition Center had a \$125,000 non-interest bearing note payable, which was paid off in September 2005.

E. Retirement Plan

Effective January 1, 2003, the Exposition Center has a Simple IRA retirement plan covering substantially all employees. Participants may elect to make voluntary pre-tax contributions of up to \$8,000 of their compensation for 2005. The Exposition Center matches 100.0 percent of the participant's voluntary contributions, up to 3.0 percent of the participant's compensation. The Exposition Center contributed \$15,902 to the plan for the year ended December 31, 2005.

F. Related Party Transactions

The Exposition Center's Board of Directors is required to have two members who are also members of the State Fair Park Board.

The Exposition Center entered into a ground lease agreement with the State Fair Park Board effective August 1, 2001. The operating lease allows the Exposition Center to construct and operate an exposition center on State Fair Park grounds. The term of the lease ends on the 28th anniversary of the date on which the construction of the Wisconsin Exposition Center was completed, with options for five one-year extensions. The Exposition Center shall pay rent equal to the excess of its annual gross revenues from all sources over its annual expenses of operating the Wisconsin Exposition Center, including debt service of any type, debt reserves, operating costs, and reserves. Rents are due annually in arrears each January 15. However, no rents were payable relating to this ground lease agreement as of December 31, 2005.

The Exposition Center has also entered into a license agreement with the State Fair Park Board granting the State Fair Park Board the sole right to use the entire Wisconsin Exposition Center during the two-week period in August of each year when the State Fair Park Board holds the annual Wisconsin State Fair. The license fee to be paid shall be negotiated each year for all rental space. All parking fees generated during the two weeks of the Wisconsin State Fair are the sole revenue of the State Fair Park Board. The license agreement continues in effect until the Exposition Center's ground lease expires or terminates.

Accounts receivable include \$169,803 from the State Fair Park Board as of December 31, 2005, primarily for reimbursement of parking and payroll for use of employees. Accounts payable and accrued expenses include \$70,248 to the State Fair Park Board as of December 31, 2005, primarily for contracted labor and services.

G. Marketable Securities

Marketable securities are stated at fair market value. Realized gains or losses on the sale of marketable securities are recognized using the specific identification method. Aggregate cost was \$511,186 as of December 31, 2005. The portfolio of marketable securities classed as current includes gross unrealized losses of \$21,192 as of December 31, 2005. There were no realized gains or losses in 2005.

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Report on Control and Compliance ■

***Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards***

We have audited the financial statements of Wisconsin State Fair Park as of and for the year ended June 30, 2006, and have issued our report thereon dated May 25, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of State Fair Park Exposition Center, Inc., as described in our report on Wisconsin State Fair Park's financial statements. The financial statements of State Fair Park Exposition Center, Inc., were not audited in accordance with *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Wisconsin State Fair Park's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level


the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Wisconsin State Fair Park's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

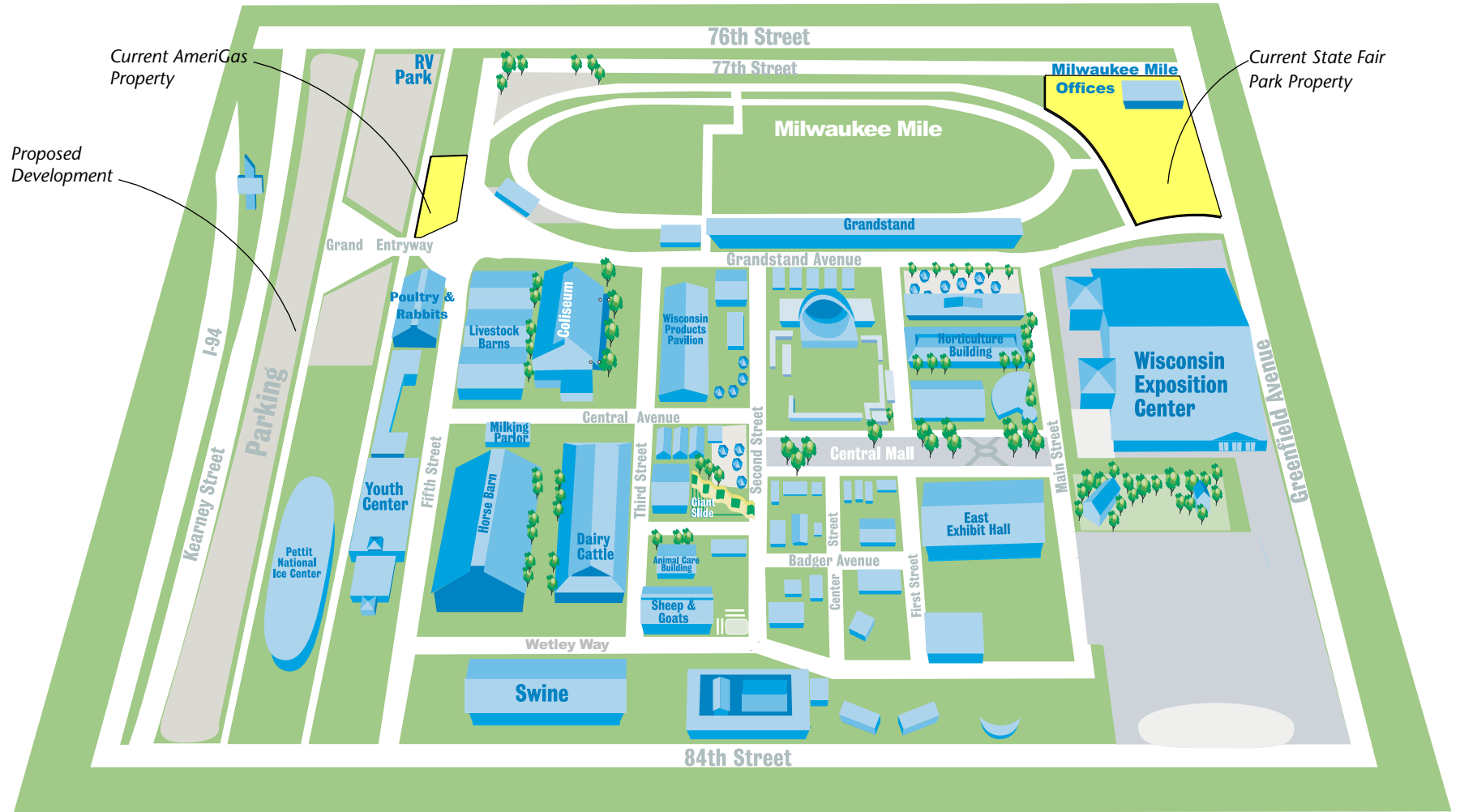
This independent auditor's report is intended for the information and use of Wisconsin State Fair Park's management and the Wisconsin Legislature. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on internal control over financial reporting or on compliance, this report is not intended to be used by anyone other than these specified parties.

May 25, 2007

LEGISLATIVE AUDIT BUREAU

by Carolyn Stittleburg
Audit Director

Appendix

Wisconsin State Fair Park



Source: State Fair Park

Area for proposed property exchange.



Wisconsin State Fair Park

640 S. 84th St. • West Allis, WI 53214 • (414) 266-7000 • wistatefair.com

May 25, 2007

Janice Mueller, State Auditor
Wisconsin Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53704

Dear Ms. Mueller:

As usual, the Legislative Audit Bureau performed its duties in a professional manner. Speaking for the State Fair Park Board and staff, we appreciate the insights provided by legislative auditors that have helped direct management efforts to achieve financial stability. We have accomplished much over the past several years in order to return to profitability in fiscal year 2006-07 after six years of losses. Thank you and your staff for your role in this effort.

The report provides updates on several major cost saving and revenue generating initiatives that have helped and will continue to help improve State Fair Park's financial condition. Of particular importance is the sale of the Olympic ice training center to the Pettit National Ice Center, Inc., which has eliminated all financial risk to State Fair Park while allowing the Pettit Center to flourish as a private enterprise.

While no specific recommendations have been included in this report, State Fair Park will continue to follow past recommendations and closely scrutinize any new capital projects and debt issuance to avoid placing new financial demands on operations. We realize program operations are stressed by past capital improvement decisions that have significantly increased debt service for fifteen or more years without increasing State Fair Park's ability to generate additional revenue to support those payments.

State Fair Park will need to remain diligent for many years to systematically eliminate its deficit in a fiscally responsible manner while protecting the quality of the annual State Fair. We look forward to the Legislative Audit Bureau's participation in this process.

Sincerely,

Randy Prasse
Executive Director